



climate change: economics

Charles River Associates' Analysis On Clinton Administration Assumptions On Economic Impact of the Kyoto Protocol

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The Clinton Administration has publicly offered optimistic assumptions about what it will take to implement the Kyoto Protocol on global warming. In reality, the cost to American families could be ten times the estimates made by the Administration because:

- The Administration has been excessively optimistic about the likelihood of an international trading system for trading greenhouse gas emissions credits. Dr. Janet Yellen, the chief White House economic advisor, has put the cost at between \$14 and \$23 a ton; economist W. David Montgomery of Charles River Associates found the cost could be \$170 a ton or more. Under that forecast, the cost to the U.S. Gross Domestic Product will be over \$100 billion, about ten times the Administration's forecast.
- To achieve the goals of the Kyoto Protocol, the Administration has assumed that all coal-fired electric utilities in the United States could be converted to natural gas by the year 2010 when the treaty takes hold. Dr. Montgomery found this to be unrealistic and questions whether it will be economically feasible for utility owners to make that rapid a change.
- Replacing coal-fired power plants with natural gas will be an enormously costly undertaking. There are many reasons – prices of trading credits abroad, lost jobs in the coal industry, limits on natural gas production. The Administration appears to have ignored all these factors.
- To estimate the increased costs on American families of implementing the Kyoto agreement, the Administration measured only part of the costs that which comes directly from rising energy prices. Dr. Yellen's study left the enormous indirect costs to reverberate through the whole economy. According to Dr. Montgomery, costs to American families should be multiplied by two to four times when all factors are considered.

These flaws in the Administration's own analysis mean that instead of dramatically reducing its own emissions when the Kyoto treaty takes effect, the United States will instead spend billions to purchase emissions credits – mainly in Russia – to offset our own inability to meet the goals of the Protocol. That is instead if actually cutting back on our own greenhouse emissions, mainly carbon dioxide, we will be forced to make a massive transfer of wealth to other countries that are actually producing less greenhouse gases than they were in 1990. The alternative of trying to meet the ambitious schedule through reducing energy use within the United States is found under the Administration's own assumptions to entail costs five times as large as the cost of buying permits overseas and ten times as much under the more realistic assumptions made by Dr. Montgomery.



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The Kyoto Protocol: Making Sense Out of Recent Economic Model Results

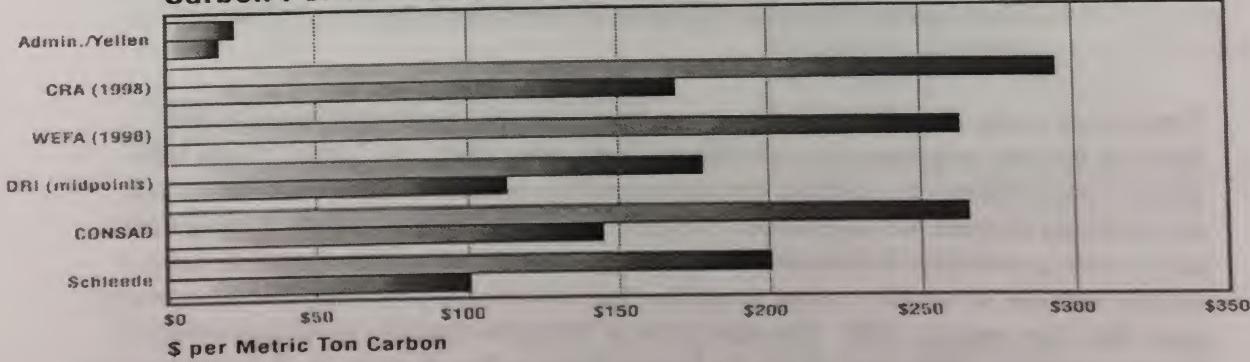
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The Kyoto Protocol requires the United States to reduce its greenhouse gas emissions to 7% below 1990 levels for the 2008-2012 period. Carbon emissions from coal petroleum products and natural gas account for about 85% of the U.S. greenhouse gas emissions. These emissions are expected to exceed the target by more than 40% in 2010, so meeting the Kyoto target would require everybody to reduce their energy consumption significantly, even if energy efficient improvements continue to be realized.

Recently, several groups have evaluated how much the Kyoto Protocol would cost the United States. Some groups have assumed that mechanisms like international trading permits would be allowed so the United States can pay other countries to reduce emissions, instead of reducing emissions domestically. Some also rely on meaningful participation from developing countries, which are currently exempt from binding restrictions. But since the use of these mechanisms are in question and developing countries have shown no willingness to participate, other studies evaluate the cost to the United States if little or no trading occurs. These studies and the estimated price of carbon permits, which raise the cost of using energy are listed below.

- **Administration/Council of Economic Advisors:** Performed by CEA Chair Janet Yellen, this analysis assumes the United States is successful in securing meaningful developing country in the Protocol as well as wide-spread and efficient international trading and technology transfer to developing nations (Clean Development Mechanism) in future negotiations. (*Administration Study, first outlined in March 1998; released August 1998*)
- **Charles River Associates:** CRA evaluates the Yellen results and concludes that the assumptions are unrealistic and that the costs with emissions trading could be ten times the Administration estimate. (*Industry study, June 1998*)
- **WEFA:** This study investigates the costs of limiting emissions if negotiations are not successful and the Administration's flexibility mechanisms prove unworkable. It does consider a doubling of technological improvements in energy efficiency. (*Industry study, June 1998*)
- **DRI- Standard & Poor's:** DRI evaluates the cost of tradable carbon permits if a substantial trading scheme is allowed and if the treaty restricts market mechanisms. (*Labor study, August 1998*)
- **CONSAD:** The research firm evaluates the impact of reducing greenhouse gas emissions on the U.S. economy and employment under two tradable permit scenarios (*Industry study, May 1998*)
- **Schleede/Consumer Alert & Pacific Research Institute:** Schleede evaluates the impact of various emissions limitation programs on the people and economy of California. (*Consumer Coalition study, June 1998*)

Carbon Permit Prices in 2010**



** Each \$200 of carbon permit price would raise the price of home heating oil by 55%, motor gasoline by 45 cents per gallon, natural gas used in business by 58% and natural gas used by industry by 90%.

Update August, 1998 • For more Information, contact Frank Maisano at the Global Climate Coalition (202) 628-3622.